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UNCLAS PANAMA 002287

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STATE FOR WHA/CEN TELLO

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#)

SUBJECT: PANAMA HINTS AT FUTURE PRIVATIZATIONS

¶1. (U) SUMMARY. The GoP has hinted through a letter to the World Bank that it may seek to privatize certain government assets in order to reduce public debt levels. However, the GoP has no current plans or agreements to further privatize any public assets. Private sector credit analysts believe the proceeds from any privatizations will not be significant. With the upcoming \$5.25 billion canal expansion and the need for \$2.3 billion in debt financing, the GoP appears to be trying to improve, or at least maintain, its credit rating in order to obtain the best possible terms on such financing. END SUMMARY.

¶2. (U) The GoP has hinted through a letter to the World Bank, dated September 8, 2006, that it is evaluating various alternatives to lower its public debt. Included in these alternatives is the sale or concession of various public assets to the private sector. Notwithstanding, Economics Minister Carlos Vallarino maintains that the GoP has no current plans or agreements to privatize any public assets. As of August 31, 2006, Panama's public debt was \$10.48 billion or approximately 62% of estimated 2006 GDP.

¶3. (U) The media have speculated that the list of possible GoP assets which could be privatized include the Social Security System, the National Savings Bank, the National Bank of Panama, the Bank for Agribusiness Development, the Insurance Institute for Agribusiness, the National Casinos, the Convention Center ATLAPA, the National Institute of Water and Sewage, Tocumen International and Albrook Airports, and the Postal Service. Also included is the possible sale of the GoP's equity interest in the telecommunications and cable company, Cable & Wireless.

¶4. (SBU) Credit analysts from a leading Wall Street credit rating agency told EconOff they believe any privatization of the Social Security System is problematic given its financial situation and the political controversy which would accompany any such privatization. The analysts also told EconOff they believe proceeds from other GoP assets would not be significant.

¶5. (U) Panama had a wave of privatizations beginning in 1997 which included the state-run energy utilities. The GoP collected a total of \$1.27 billion from such privatizations. The money was deposited into the Development Trust Fund. Under law the only the income on the underlying principal can be used for development projects. To date, approximately 80% of the fund is invested in GoP debt obligations.

¶6. (U) COMMENT. With October 22, 2006 voter approval of the \$5.25 billion Panama Canal expansion project, the GoP is seeking to improve its credit rating before approaching the public debt markets or banks for the estimated \$2.3 billion

in financing budgeted for the project. Any lowering of the public debt, along with reduction in government payrolls and increased private sector participation, would be beneficial in attracting better financing terms. While any financing of the canal expansion would be a debt of the Panama Canal Authority (ACP), some credit rating agencies link the ACP's rating to that of the GoP. Accordingly, maintaining or improving the GoP's current BBB rating is crucial in keeping the expansion costs within budget. END COMMENT.
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